



**A Report to the
Audit Committee**

Mayor
John Cooper

**Nashville Municipal
Auditorium**
Donald Harris

Audit Committee Members
Kevin Crumbo
Thom Druffel
Charles Frasier
Brackney Reed
Jim Shulman
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Audit of the Nashville Municipal Auditorium

October 25, 2019

Metropolitan
Nashville
Office of
Internal Audit

EXECUTIVE SUMMARY

October 25, 2019



Why We Did This Audit

The audit was initiated due to the length of time that has passed since the last audit.

What We Recommend

- Create policies and procedures to document, track, and approve compensatory time earned and leave time used.
- Create policies and procedures to strengthen controls over the revenue cycle.
- Ensure the remaining six outstanding recommendations from the 2011 Office of Internal Audit report be implemented.

Audit of the Nashville Municipal Auditorium

BACKGROUND

The Nashville Municipal Auditorium was built in 1962 and serves as an indoor sports and concert venue for the Middle Tennessee area. The Musicians Hall of Fame and Museum is also located within the Nashville Municipal Auditorium. Since its inception, the Nashville Municipal Auditorium has hosted a wide range of events including the 1994 United States Gymnastics Championships, the 1996 Tour of World Figure Skating Championships as well as several Ohio Valley Conference basketball tournaments. Numerous entertainers such as Billy Joel, the Rolling Stones and Elvis have also performed at the Nashville Municipal Auditorium.

OBJECTIVES AND SCOPE

The objectives of this audit were to determine if:

- Payroll expenses are for work actually performed and in accordance with the Metropolitan Nashville Government's Civil Service Rules.
- Expenditures are in accordance with the Metropolitan Nashville Government's procurement code and credit card policies.
- Revenue collected is complete, accurate, and recorded.

The scope of this audit included financial activities that took place at the Municipal Auditorium between July 1, 2016 and February 28, 2019.

WHAT WE FOUND

General expenditures incurred by the Nashville Municipal Auditorium were made in accordance with the Metropolitan Procurement Code and the Department of Finance, Treasury Policy Number 19 for credit card usage. Expenditures appeared to be related to the mission of the Nashville Municipal Auditorium. Controls related to non-cash revenue are in place and appear to be operating as management intends.

Employees of the Nashville Municipal Auditorium accrue large amounts of overtime and compensatory time. The Nashville Municipal Auditorium does not have a methodology in place to adequately approve, track and monitor such payroll expenditures. Documentation in this area did not exist.

Controls are lacking for the cash collection process in the box office. Policies and procedures should be developed to improve the security of cash, segregation of duties between employees, custody transfers, and the timely deposit of revenue collections to the bank.

GOVERNANCE

The Nashville Municipal Auditorium is governed by the Municipal Auditorium Commission in accordance with the Metropolitan Code Section 2.116.010. The Municipal Auditorium Commission has 7 members who are appointed by the Mayor. Each member serves a three-year term. The operations of the Nashville Municipal Auditorium are overseen by the Auditorium Manager who reports to the Municipal Auditorium Commission.

BACKGROUND INFORMATION

The Nashville Municipal Auditorium is a multi-purpose venue hosting a wide range of both ticketed and non-ticketed events. Ticketed events are those with box office sales, such as concerts, comedians, the circus, and sporting events. Non-ticketed events are events where revenue is not generated from the public; such as graduations, tour rehearsals, and conferences.

Between January 2016 and December 2018, the Municipal Auditorium held 122 events and generated \$4,868,054 in event revenue. A summary of the number of events and revenue generated is summarized below.

Exhibit 1- Total Events Held at Municipal Auditorium, by calendar year

| Year | Ticketed Events | Non-ticketed Events | Total Events | Event Revenue |
|------|-----------------|---------------------|--------------|---------------|
| 2016 | 13 | 16 | 29 | \$1,349,660 |
| 2017 | 25 | 17 | 42 | \$1,578,769 |
| 2018 | 31 | 20 | 51 | \$1,939,625 |

Source: Municipal Auditorium subledger listing; JD Edwards Enterprise One

At the time of the audit, the Municipal Auditorium has nine full-time employees on staff who work to maintain the facility, run the box office, and manage the day-to-day operations. During events, box office, security, and event staff are supplied by contracted staffing companies. These staffing companies make up five of the top ten vendors in terms of the highest expenditures between July 2016 and February 2019. A summary of the top ten vendors is presented below.

Exhibit 2- Top Vendors, July 2016 through February 2019

| Vendor | Total | Description |
|------------------------------------|-------------|----------------|
| LIVE NATION WORLDWIDE INC | \$1,472,220 | Event Promoter |
| DES | 720,183 | Utilities |
| NASHVILLE ELECTRIC SERVICE CO | 382,743 | Utilities |
| INDUSTRIAL STAFFING OF TN | 277,133 | Event Staff |
| AXIS SECURITY, INC | 211,384 | Event Staff |
| SIZEMORE SERVICES | 194,240 | Event Staff |
| ALLIED UNIVERSAL SECURITY SERVICES | 146,434 | Event Staff |
| COMMONWEALTH DEVELOPMENT GRP INC | 104,682 | Construction |
| CREW ONE PRODUCTIONS INC | 102,243 | Event Staff |
| SKANSKA USA BUILDING INC | 73,525 | Construction |

Source: JD Edwards Enterprise One

The Municipal Auditorium entered into a three-year contract with Live Nation in 2016. The contract allows Live Nation access and use of the facility for “promotional activities” such as booking, ticketing, production, advertising, and marketing live music or comedy events. In accordance with this contract, Live Nation retains all revenue generated from their events. The Nashville Municipal Auditorium collects and reconciles all revenue generated for these events, and remits payment of this revenue to Live Nation at the conclusion of the event. In return, Live Nation pays Municipal Auditorium a total of \$1,000,000 to be made in six installments of \$166,667 every six months over the three-year term, as payment for the use of the facility.

Due to the nature of the work, including evening and weekend events, many of the employees of Municipal Auditorium work more than 40 hours per week. This has caused the Nashville Municipal Auditorium to accrue large amounts of compensatory time and overtime. A summary of the overtime and compensatory time from fiscal years 2016 to 2018 is presented below.

Exhibit 3 - Hours of Compensatory and Overtime Earned, by calendar year

| Pay Type | 2016 | 2017 | 2018 |
|-----------------|-------------|-------------|-------------|
| Comp E OT A | 594 | 744 | 756 |
| Comp E Reg A | 519 | 615 | 577 |
| Overtime-1.0 | 24 | 8 | 29 |
| Overtime-1.5 | 307 | 307 | 283 |

Source: JD Edwards Enterprise One

OBJECTIVES AND CONCLUSIONS

1. *Are controls in place to ensure proper management of fiscal resources?*

Supporting Objectives and Conclusions

- a) *Are controls in place to ensure payroll expenses are for work actually performed, and in accordance with the Metropolitan Nashville Government's Civil Service Rules?*

Generally, no. Compensatory time earned is not approved or documented. Leave time taken is not requested or approved by a supervisor. Overall payroll expenses are not reviewed or approved by a supervisor. (See Observation A).

- b) *Are expenditures for a valid business purpose, and in accordance with Metropolitan Nashville Government's procurement code?*

Generally, yes. Expenditures tested were found to have a valid business purpose, were approved, received, and accurately calculated. Controls were also in place to ensure expenditures from the petty cash fund are approved and reconciled to the established balance. However, the 57 credit card transactions reviewed, one receipt was not itemized, and ten did not correctly have local sales tax excluded. Nashville Municipal Auditorium does not currently have a credit card. (See observation C).

- c) *Are reported revenues complete, accurate, properly secured, and recorded timely?*

Generally, yes. The majority of revenue comes from Ticketmaster sales, and is wired to the Nashville Municipal Auditorium weekly from Ticketmaster. Documentation supports all wire transfers and allocation of revenue by event. However, Box Office controls could be strengthened around cash collection. (See Observation B).

2. *Were recommendations from the 2011 internal audit of Nashville Municipal Auditorium implemented?*

Generally, no. Controls around purchasing have improved and are in accordance with the Procurement Code, however the lack of controls relating to segregation of duties in the box office, and overtime and compensatory time have not changed. Of the eight recommendations made in the 2011 report, only two have been implemented. (See Observation D).

AUDIT OBSERVATIONS

Internal control helps ensure entities achieve important objectives and sustain and improve performance. The Committee of Sponsoring Organizations of the Treadway Commission (*COSO*), *Internal Control – Integrated Framework*, enables organizations to effectively and efficiently develop systems of internal control that adapt to changing business and operating environments, mitigate risks to acceptable levels, and support sound decision making and governance of the organization. The audit observations listed are offered to assist management in fulfilling their internal control responsibilities. See Appendix B for a description of the observation *Assessed Risk Rating*.

Observation A – Compensatory and Leave Time

The Nashville Municipal Auditorium does not have controls in place to adequately approve, track, and monitor overtime and compensatory time. The Nashville Municipal Auditorium has seven salaried employees and two hourly employees. Hourly employees track time with a physical time card, while salaried employees are responsible for tracking their own time.

A shared Microsoft Outlook calendar is used for salaried employees to enter leave time taken. There is no documented request to use leave time, nor is there approval by a supervisor. If an employee earns compensatory time, he or she will verbally communicate compensatory hours earned to the employee who enters payroll exceptions into the EnterpriseOne system. Compensatory time is not pre-approved by a supervisor. Additionally, the number of hours worked and an explanation for the purpose of compensatory time earned is not documented. Payroll is submitted in the EnterpriseOne system without final review or approval by a supervisor.

Between July 1, 2016 and February 28, 2019, a total of 3,483 hours of compensatory time was earned, an average of 50 compensatory hours earned per pay period. During the same period, 4,546 hours of compensatory time was used or paid out, and 4,418 hours of sick and vacation time were used.

Criteria:

- COSO, Control Activities - Principle 12 - The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Civil Service Rules 4.3 Scheduling and Approval of Leave- All leaves must be requested as far in advance as possible. The Appointing Authority or designee shall have the discretion to approve all leave requests.

Assessed Risk Rating:

High

Recommendations for management of the Nashville Municipal Auditorium to:

Explore the possibility of switching to an electronic attendance and leave tracking system. Kronos is the Metropolitan Nashville standard for time and attendance tracking and has licenses centrally managed by the Information Technology Services department. Require documented written or electronic approval by a supervisor of compensatory time earned.

Observation B – Box Office Revenue Collections

Controls over revenue collections at the Box Office need improvement. The Nashville Municipal Auditorium has a Box Office onsite for in-person ticket sales. Tickets can be purchased from the Box Office prior to the event, as well as on the day of the event. The cash drawer is unlocked in the box office during Box Office hours on non-event days. While the Box Office is locked to the public, all Nashville Municipal Auditorium employees have access to it. Two employees share both the cash drawer and one ticketing computer. At end of business day, total sales for the day are entered into an Excel spreadsheet allocating the amount collected to each event.

A vault is located in the office, where the cash drawers, petty cash, checks, and blank event tickets are kept. The vault is accessed by a coded keypad that at least 4 or 5 employees know the code to. Cash deposits are made, on average, 3 business days after collection. In some instances, as many as 9 business days passed before the cash was deposited in the bank.

Criteria:

- COSO, Control Activities - Principle 10 - The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.
- Metropolitan Nashville Government's Finance Department Policy - Treasury #9 - Cash Deposits, cash receipts are to be deposited within one business day and recorded within two business days of deposit.

Assessed Risk Rating:

High

Recommendations for management of the Nashville Municipal Auditorium to:

1. Implement a procedure whereby revenue collections are retained in the custody of only one employee at a given time. When assets are transferred to another party, the verification of amounts transferred to the other person should be documented at the time of transfer.
2. Ensure that incompatible revenue collection duties such as payment handling, deposit preparation, recordkeeping, and authorization are properly segregated to ensure accountability.
3. Deposit cash collections within one business day of receipt in accordance with financial policies.

Observation C – Credit Card Transactions

During the audit period, 57 credit card purchases were made with a Metropolitan Government of Nashville credit card. All 57 of the transactions had receipts retained, although one receipt was not itemized, and the business purpose could not be determined. For ten transactions, sales tax was paid on the purchases. These findings were consistent with the findings of a credit card review done by the Office of Financial Accountability in 2016.

The cardholder responsible for these transactions is no longer with Nashville Municipal Auditorium, and there is no longer a cardholder in the department.

Criteria:

- Metropolitan Nashville Government's Finance Department Policy #19 – Credit Cards
- COSO 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

Assessed Risk Rating:

Medium

Recommendations for management of the Nashville Municipal Auditorium:

If Municipal Auditorium is authorized a new credit card, the cardholder should maintain adequate supporting documentation to support credit card transactions and exercise exempt status to avoid paying Tennessee sales tax.

Observation D – Follow Up of Previous Audit Recommendations

Of the eight audit recommendations from the 2011 Audit of the Nashville Municipal Auditorium, six were not implemented. These included:

1. Setup individual user accounts in the Ticketmaster system for each employee selling tickets at the Box Office and reconcile daily cash receipts to the Ticketmaster sales audit. To establish individual accountability, these employees should use separate tills (or locked cash bag) to keep their own sales proceeds.
2. Submit all payments received to the bank for deposit within one business day of receipt and record all receipts into the accounting system within two days of receipt.
3. Establish procedures in accordance with Metro Civil Service Rules and Policy in relation to overtime compensation. This policy states that employees should be aware of the option of election of compensatory time and to establish proper approval and documentation for overtime needs.
4. Consider adopting or creating a scheduling method to efficiently manage working hours around events.
5. Work with the Department of Finance Division of Accounts to ensure capital assets are tracked throughout the asset's life cycle. This would include documentation of permanent or temporary transfers, disposals, and/or write-offs of missing or impaired assets.
6. Annually conduct a physical inventory of capital and tracked assets to Metro Nashville's Department of Finance, Division of Accounts.

Criteria:

- COSO 10 – The organization selects and develops control activities that contribute to the mitigation of risks to the achievement of objectives to acceptable levels.

- Metropolitan Nashville Government's Finance Department Policy - Treasury #9 - Cash Deposits, cash receipts are to be deposited within one business day and recorded within two business days of deposit.
- COSO, Control Activities - Principle 12 - The organization deploys control activities through policies that establish what is expected and procedures that put policies into action.
- Civil Service Rules 4.3 Scheduling and Approval of Leave- All leaves must be requested as far in advance as possible. The Appointing Authority or designee shall have the discretion to approve all leave requests.

Assessed Risk Rating:

Medium

Recommendations for management of the Nashville Municipal Auditorium to:

Ensure that the recommendations from the 2011 report are fully implemented.

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our observations and conclusions based on our audit objectives.

METHODOLOGY

To accomplish our audit objectives, we performed the following steps:

- Interviewed key personnel within the Nashville Municipal Auditorium
- Reviewed and analyzed documentation for compliance with the Metropolitan Nashville Code of Laws, and other applicable laws, regulations, and policies.
- Evaluated internal controls currently in place.
- Reviewed and tested sample selections to determine the effectiveness of internal controls.
- Considered risk of fraud, waste, and abuse.

AUDIT TEAM

Laura Henry, CFE, In- Charge Auditor

Bill Walker, CPA, CIA, Principal Auditor

Gina Pruitt, CPA|CITP, CISA, CHFP, CQA, CEMB, CGMA, CRISC, CCSFP, CHCO, Interim Metropolitan Auditor

John Cooper
MAYOR



METROPOLITAN GOVERNMENT NASHVILLE AND DAVIDSON COUNTY

Nashville Municipal Auditorium
417 Fourth Ave. North
Nashville, TN 37201

October 24, 2019

Metropolitan Nashville Office of Internal Audit
Attention: William Walker
404 James Robertson Parkway, Suite 190
Nashville, TN 37219

Dear Mr. Walker:

This letter is to inform you that the Nashville Municipal Auditorium has received the Draft Audit Report issued by the Office of Internal Audit. We have reviewed and accepted your recommendations. We have provided a response and have established a timeline for corrective action. Please let me know if you need anything else from our department.

Thank you,

A handwritten signature in black ink, appearing to read "Don Harris".

Don Harris
Nashville Municipal Auditorium

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

We believe that operational management is in a unique position to best understand their operations and may be able to identify more innovative and effective approaches, and we encourage them to do so when providing their response to our recommendations.

| | Recommendation | Concurrence and Corrective Action Plan | Proposed Completion Date |
|-------------|--|--|--|
| <i>Risk</i> | <i>Recommendations for the management of the Nashville Municipal Auditorium:</i> | | |
| High | A.1 Explore the possibility of switching to an electronic attendance and leave tracking system. Kronos is the Metropolitan Nashville standard for time and attendance tracking and has licenses centrally managed by the Information Technology Services department. Require documented written or electronic approval by a supervisor of compensatory time earned. | Accept: We will go to a written documented approval system. | Proposed completion date March 1, 2020 |
| High | B.1 Implement a procedure whereby revenue collections are retained in the custody of only one employee at a given time. When assets are transferred to another party, the verification of amounts transferred to the other person should be documented at the time of transfer. | Accept: | Proposed completion date March 1, 2020 |
| High | B.2 Ensure that incompatible revenue collection duties such as payment handling, deposit preparation, recordkeeping, and authorization are properly segregated to ensure accountability. | Accept: | Proposed completion date March 1, 2020 |
| High | B.3 Deposit cash collections within one business day of receipt in accordance with financial policies. | Accept: | Proposed completion date March 1, 2020 |

APPENDIX A – MANAGEMENT RESPONSE AND CORRECTIVE ACTION PLAN

| | Recommendation | Concurrence and Corrective Action Plan | Proposed Completion Date |
|---------------|--|--|--|
| Medium | C.1 If Municipal Auditorium is authorized a new credit card, the cardholder should maintain adequate supporting documentation to support credit card transactions and exercise exempt status to avoid paying Tennessee sales tax. | Accept: | Proposed completion date March 1, 2020 |
| Medium | D.1 Ensure that the recommendations from the 2011 report are fully implemented. | Accept: | Proposed completion date March 1, 2020 |

APPENDIX B – ASSESSED RISK RANKING

Observations identified during the course of the audit are assigned a risk rating, as outlined in the table below. The risk rating is based on the financial, operational, compliance or reputational impact the issue identified has on the Metropolitan Nashville Government. Items deemed “Low Risk” will be considered “Emerging Issues” in the final report and do not require a management response and corrective action plan.

| Rating | Financial | Internal Controls | Compliance | Public |
|---------------------------------|--|---|--|---|
| HIGH | Large financial impact >\$25,000 Remiss in responsibilities of being a custodian of the public trust | Missing, or inadequate key internal controls | Noncompliance with applicable Federal, state, and local laws, or Metro Nashville Government policies | High probability for negative public trust perception |
| MEDIUM | Moderate financial impact \$25,000 to \$10,000 | Partial controls Not adequate to identify noncompliance or misappropriation timely | Inconsistent compliance with Federal, state, and local laws, or Metro Nashville Government policies | Potential for negative public trust perception |
| LOW/ Emerging Issues | Low financial impact <\$10,000 | Internal controls in place but not consistently efficient or effective Implementing / enhancing controls could prevent future problems | Generally complies with Federal, state, and local laws, or Metro Nashville Government policies, but some minor discrepancies exist | Low probability for negative public trust perception |
| Efficiency Opportunity | An efficiency opportunity is where controls are functioning as intended; however, a modification would make the process more efficient | | | |